CZAR RESOURCES LTD.

1982 Annual Report

Czar Resources Ltd. and Subsidiary Companies

Corporate Information

Board of Directors

Robert W. Lamond
Calgary, Alberta

Bonita O. Rawlyck
Calgary, Alberta

Brian C. Bentz
Vancouver, British Columbia

Officers

Robert W. Lamond
Chairman of the Board, President and Chief Executive Officer

Bonita O. Rawlyck
Senior Vice President, Finance and Chief Financial Officer

P. Richard Ewacha
Chief Engineer

Sharon P. Runge
Land Manager

Allan R. Twa
Corporate Secretary

Officers of Czar Resources Inc. U.S. Subsidiary

John A. Habbishaw
Vice President and General Manager

J. Michael Gatlin
Vice President and Assistant General Manager

Dean R. Broadhead
Controller

T. William Porter
Corporate Secretary

Annual Meeting

The Annual Meeting of Shareholders of Czar Resources Ltd. will be held at 2:30 p.m. Tuesday, April 26, 1983 in the Glencoe Room of the Calgary Convention Centre, 110 Ninth Avenue S.E., Calgary, Alberta.

Corporate Office

10th Floor, 333 Fifth Avenue S.W.
Calgary, Alberta
T2P 3B6

U.S. Office

333 North Belt, Suite 400
Houston, Texas
77060

Division and Field Office

Fort St. John
P.O. Box 6718
Fort St. John,
British Columbia V1J 4J2

Legal Counsel

Burnet, Duckworth & Palmer
32nd Floor, 425 First Street S.W.
Calgary, Alberta T2P 3L8

Porter & Clements
711 Polk, Suite 1200
Houston, Texas 77002

Auditors

Thorne Riddell
1400, Bow Valley Square II
205 Fifth Avenue S.W.
Calgary, Alberta T2P 2W4

Main Hurdman
2200 Dresser Tower
Houston, Texas 77002

Registrar & Transfer Agents

The Canada Trust Company
505 Third Street S.W.
Calgary, Alberta T2P 3E6

Wholly-Owned Subsidiaries

Czar Resources Inc.
Czar Developments Ltd.

Stock Listing

The Toronto Stock Exchange
234 Bay Street
Toronto, Ontario

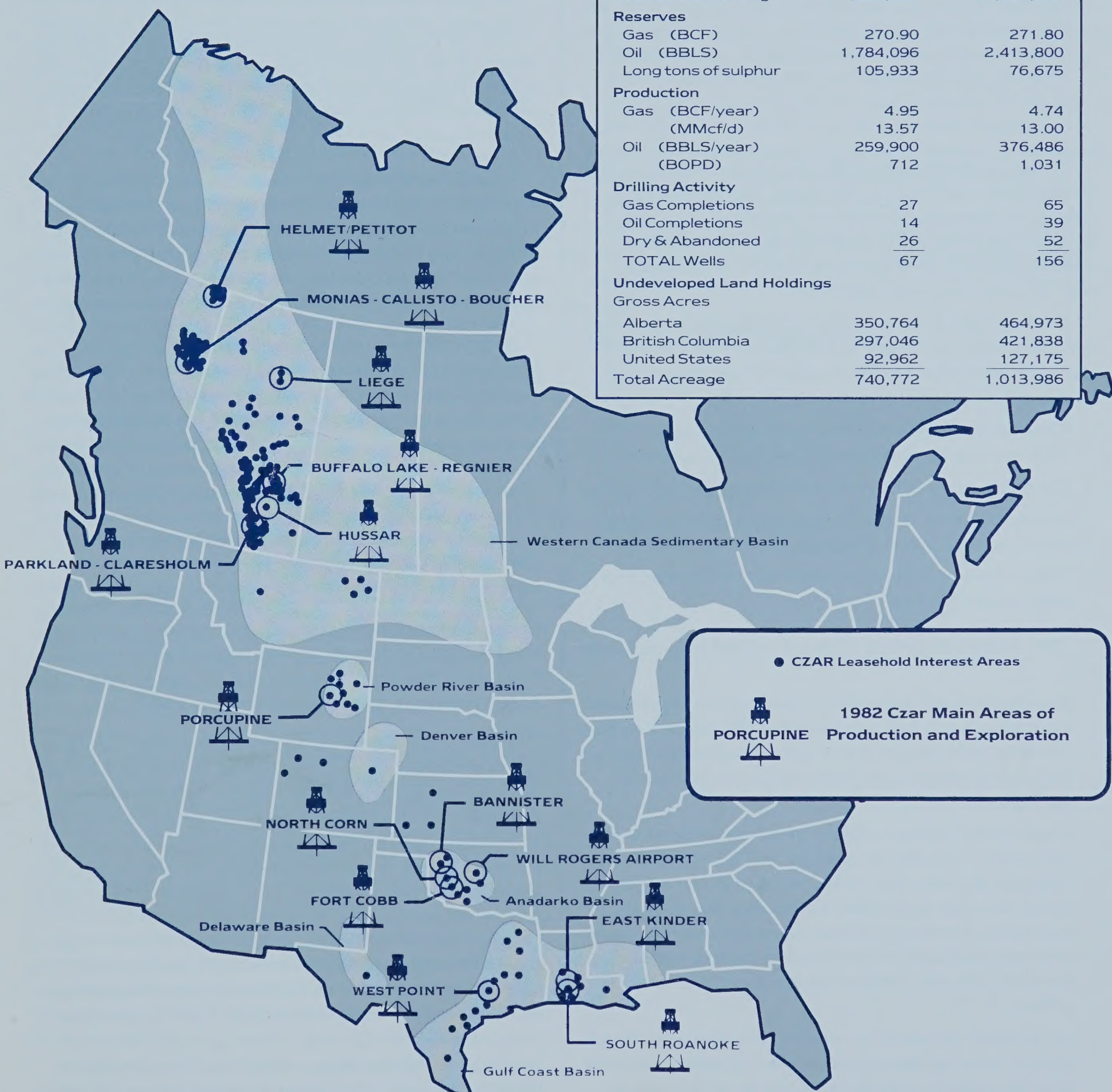
The Alberta Stock Exchange
3rd Floor, 300 Fifth Avenue S.W.
Calgary, Alberta

The Montreal Stock Exchange
The Stock Exchange Tower
800 Victoria Square
Montreal, Quebec

Trading Symbol — CZR

Highlights

	1982	1981
Revenue	$ 15,824,152	$ 13,320,852
Cash flow (Loss)	$ (5,926,611)	1,143,005
Cash Flow (Loss) per share	$ (.51)	$ .10
Net Loss	$ (27,287,298)	$ (4,681,340)
Net Loss per share	$ (2.35)	$ (.44)
Total Assets	$ 115,770,128	$ 145,182,065
Shares Outstanding	11,628,553	11,628,553
Reserves		
Gas (BCF)	270.90	271.80
Oil (BBLS)	1,784,096	2,413,800
Long tons of sulphur	105,933	76,675
Production		
Gas (BCF/year)	4.95	4.74
(MMcf/d)	13.57	13.00
Oil (BBLS/year)	259,900	376,486
(BOPD)	712	1,031
Drilling Activity		
Gas Completions	27	65
Oil Completions	14	39
Dry & Abandoned	26	52
TOTAL Wells	67	156
Undeveloped Land Holdings		
Gross Acres		
Alberta	350,764	464,973
British Columbia	297,046	421,838
United States	92,962	127,175
Total Acreage	740,772	1,013,986



To The Shareholders

Commencing in late 1980, the progressive impact of the National Energy Program, high interest rates, increased government taxation and costly British Columbia and United States exploration ventures left Czar in a debt position undesirably high in relation to its cash flow.

During 1982, Czar's Board of Directors authorized an immediate and vigorous retrenchment program designed to reduce both fixed and variable costs and improve cash flows by:

- Eliminating Czar's direct participation in its drilling programs where possible.
- Carefully reviewing and reducing overhead costs.
- Instituting measures to increase cash flows by entering into discounted gas sales contracts.
- Selling non-producing properties in Canada and the United States.

The implementation of this program has resulted in:

- a reduction of Czar's expenditures on fixed asset additions from $45.3 million in 1981 to $9.7 million in 1982. Virtually all of the 1982 costs were related to the installation of pipelines and production facilities.
- a reduction in the number of employees of the Company from 81 in Canada and 88 in the United States, at year end 1981, to 48 and 13 respectively at year end 1982. Adequate severance and lease termination fees prevented any general and administrative cost saving during 1982, but an estimate for 1983 shows a saving of over $3 million.
- as a corporate policy, relating to concerns about future natural gas exports, the Company entered into long term contracts to sell all of its uncommitted Alberta gas reserves to two industrial consumers. These contracts are now allowing a maintenance of Czar's production revenues during a time of deteriorating gas markets.
- modest dispositions of non-producing acreage, especially in the United States. Market conditions, however, have precluded significant dispositions of non-producing Canadian gas properties.

For fiscal 1982, revenues totalled $15.8 million, an increase of 18.8% from $13.3 million in 1981. Net production revenue increased by 19.9% and was derived 41% from Alberta, 25% from British Columbia and 34% from the United States.

Increases in interest costs, production expenses and slightly higher administration costs resulted in a cash loss of $5.9 million. The addition of a substantial provision for bad debts and a write down of United States fixed assets increased the reported loss to $27.3 million or $2.35 per share.

Disappointing production results from the Company's United States oil wells, particularly the Austin Chalk wells in Texas, have led the Company's consulting engineers to reassess its oil reserves, substantially reducing them from those reported for fiscal 1981, and to reduce the value of related undeveloped acreage. As a result of this reduction in reserves and in undeveloped acreage value, the Company wrote down U.S. fixed assets at October 31, 1982 by $14.2 million.

Due to the lack of development activity on the Company's principal non-producing areas, such as the Helmet-Petitot Area of northeastern British Columbia, the Company did not capitalize any of the $10.8 million of interest expense in 1982.

During 1982, the Company's efforts in Canada were directed primarily towards drilling to further develop its gas reserves, the production testing of wells and the completion of facilities necessary to produce gas to its industrial contracts. Successful wells were drilled at Parkland, Buffalo Lake and Delia in southern Alberta. The Company's Parkland gas processing plant, located 80 kilometers south of Calgary, commenced production in January 1983 at a rate of seven million cubic feet of gas per day. This volume will increase to 24 million cubic feet of gas per day in April 1983 when Czar's gas supply contract to Sherritt Gordon's Fort Saskatchewan fertilizer plant becomes effective. The Company directly owns a 15 percent interest in the facility and with its internal partners controls 41 percent.

Though the lack of gas markets during the year precluded any activity in British Columbia, the National Energy Board's decision of January 1983 to authorize export volumes of liquified natural gas to Japan could result in a substantial long term benefit to Czar. Despite several important conditions still having to be met, the Company is encouraged that the British Columbia Government is considering the possibility of increasing the amount of gas it will supply to the project beyond the 25% of total volumes now proposed. The project, presently slated for a 1986 start-up, may enable Czar to place on production a large volume of its presently shut-in reserves.

During January 1982, Czar was represented at the Commissioner Inquiry on British Columbia's Requirements, Supply and Surplus of Natural Gas and Natural Gas Liquids and presented a report for the development and production of 15 million cubic feet of gas per day from the Helmet-Petitot area where the Company has interests in 30 shut-in gas wells. A submission by the British Columbia Petroleum Corporation to this same inquiry studied 19 areas of unconnected gas reserves in the province and showed that on a cost per unit volume basis, the Helmet area was the least costly to bring into production. Czar will closely follow and be an active participant in the furtherance of any new British Columbia gas sale opportunity.

In the United States, Czar concentrated its exploration efforts in Oklahoma and Wyoming. In Oklahoma, the Company completed 15 productive gas and oil wells during 1982. In Washita and Roberts Counties, five gas wells were completed in the Springer, Red Fork and Atoka formations. Czar also continued its participation in the Will Rogers Airport area located on the outskirts of Oklahoma City, by completing seven oil wells in the multiple objective lower Pennsylvanian play. Five of the wells were completed in the Skinner sand with initial production rates as high as 250 barrels of oil per day. In Wyoming, two Dakota gas wells, which were successfully completed on the Porcupine Prospect located in the central Powder River Basin, are currently on production.

During 1982, Czar continued to finance its development drilling program using funds from limited partnerships and joint venture programs. At year end, Czar had access to over $4 million from these sources.

The directors and staff were saddened by the untimely death of Christopher J. C. Bill in July 1982. Mr. Bill served as a member of the Board of Directors since 1979 and his financial knowledge and counsel were of great assistance to the Company. During the year, Ian B. McMurtrie resigned as President and a Director and Robert W. Lamond resumed the office of President.

The Board of Directors are of the view that the overriding consideration in managing the Company must now be corporate liquidity. During the next several years, the energies of Czar's management will be exclusively directed towards protecting and capitalizing on its asset base. Spending decisions will be made based on the maximization of near term cash returns from existing assets. The past year has been a difficult one for the Company, however many of the appropriate steps have been taken to ensure that Czar continues through these difficult economic times.

I wish to thank the shareholders and the staff of the Company in Canada and the United States for their continued effort and support during the past year.

ON BEHALF OF THE BOARD

R. W. LAMOND,

Chairman of the Board

Exploration and Development

Czar's expenditures on exploration, development and production facilities in Canada and the United States totalled $9.7 million before recovery of Petroleum Incentive Program grants of $4.5 million.

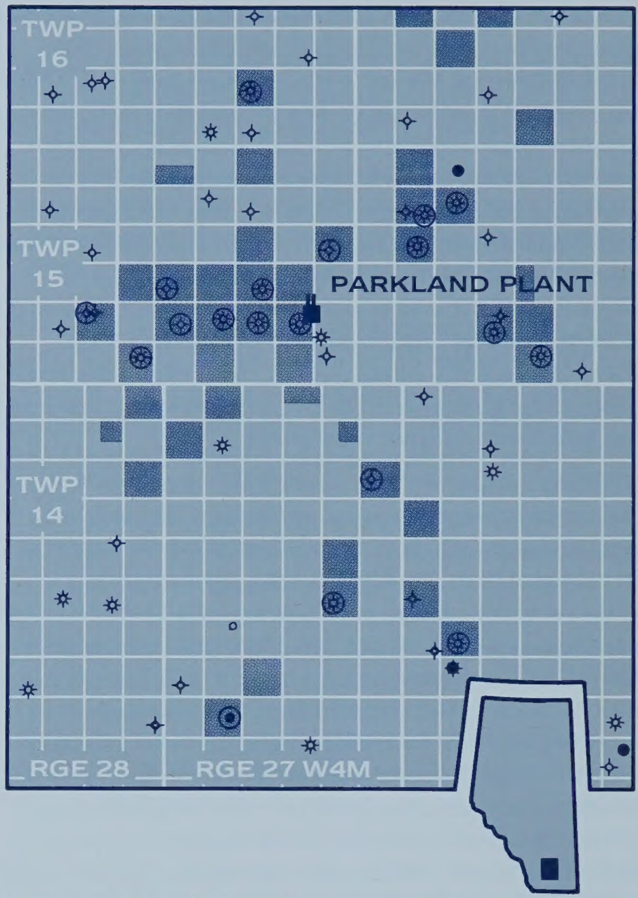
During the year, Czar participated in a total of 67 wells of which 41 were cased as potentially productive and 26 were dry and abandoned. Fourteen of the wells were completed as oil wells and twenty-seven as gas wells. Twenty-three of the wells were farmed out and drilled by third parties at no cost to the Company. Drilling activities were centered on Parkland and Buffalo Lake in Canada and on the Porcupine, Wyoming and Will Rogers Airport, Oklahoma prospects in the United States.

Considerable additions to Czar's gas production capacity were made during the year. At both Parkland and Gadsby, plants and extensive field gathering systems were completed and placed on stream. Plant expansions or new pipelines have also been constructed at Hussar, Twining, Caroline and Manito. Cost and economic studies for an additional five gas pools were underway at year end.

The Company's gross acreage position decreased to 740,772 acres in 1982 from 1,013,986 acres in 1981, primarily as a result of expiration of tenure and through the sale and farmout of acreage in both Canada and the United States.

Drilling Statistics 1982

	OIL	GAS	DRY	TOTAL
Canada	4	14	7	25
United States	10	13	19	42
TOTAL	14	27	26	67



Parkland, Alberta

CZAR Interest Lands
CZAR Interest Well
Location
Oil Well
Gas Well
Dry & Abandoned

Czar continued to develop the Parkland area by participating in two new wells which were successfully completed and extended the glauconite channel sand play in a westerly direction. The Parkland 16-9-15-27 W4M well added proved gas reserves of almost 7 Bcf of gas to the field and was completed with an absolute open flow potential of 9.5 MMcf/d.

The Company now has interests in 14 commercially productive wells in the general area with established reserves of over 90 Bcf of gas and a deliverability capability of 20 MMcf/d.

With the ready access to market that the completion of the Parkland gas processing plant provides, Czar will continue to be active in this area in order to expand its reserve base.

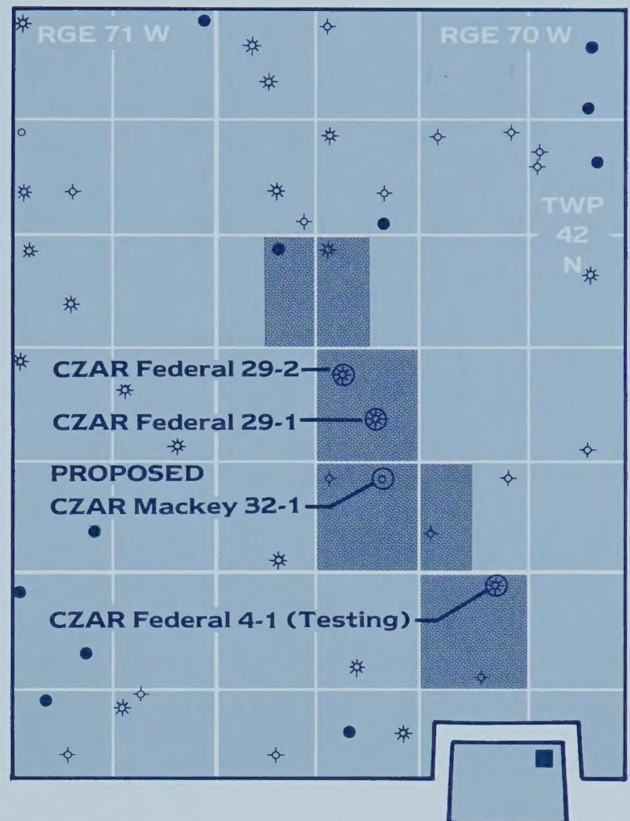
Buffalo Lake, Alberta

CZAR Interest Lands
CZAR Interest Well
Location
Oil Well
Gas Well
Dry & Abandoned

During 1982, Czar participated in the drilling of four wells in this east central Alberta area, where the Company now has interests in nine gas pools containing fourteen wells.

Two wells were drilled on a Belly River gas prospect offsetting the producing gas well, Buffalo Lake North 6-19-42-21 W4M. These two wells, Bashaw 10-13-42-22 W4M and 6-24-42-22 W4M encountered the same gas pool as 6-19 plus additional Belly River gas zones. Both wells are currently being tied-in and should be on production at a combined rate of 1 MMcf/d in early March 1983. Negotiations are underway for further development wells in this area.

The Bashaw 4-17-42-23 W4M well was also drilled and cased for Belly River and Basal Quartz gas. In July, the Manito 16-13-42-20 W4M well commenced production at a rate of 2 MMcf/d from one of four zones testing gas.

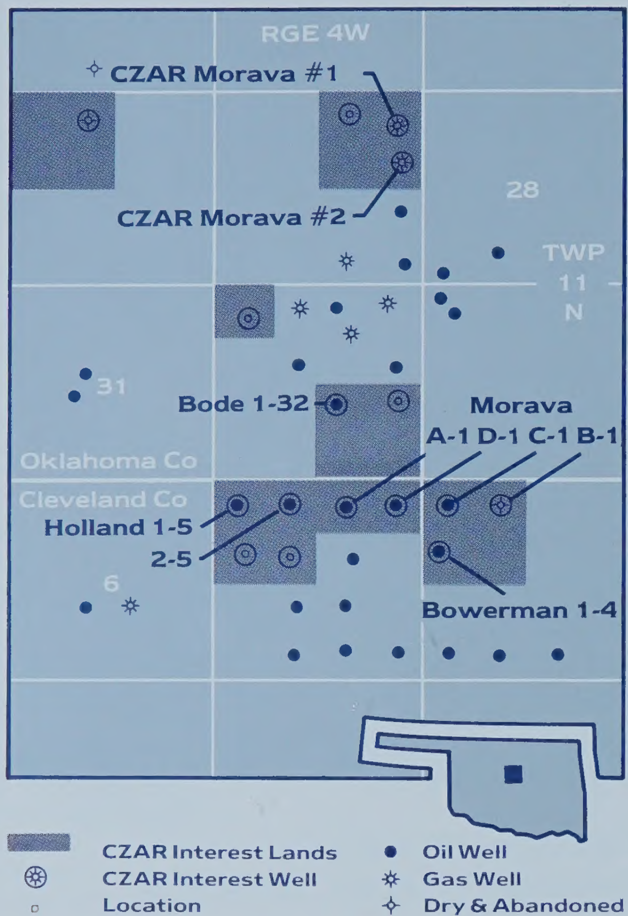


Porcupine Prospect, Campbell County, Wyoming

CZAR Interest Lands
CZAR Interest Well
Location
Oil Well
Gas Well
Dry & Abandoned

The Porcupine Prospect is situated in the central Powder River Basin. During 1982, two wells were successfully completed on the prospect. The Czar Federal 29-1 was completed as a new field discovery testing at a rate of 1.2 MMcf/d and 50 BOPD from 15 feet of lower Cretaceous Dakota sand at approximately 10,400 feet. Two other pay zones were encountered in the well, the Sussex sand which is oil productive in the area, and an additional lower Cretaceous zone which yielded oil and gas on drillstem test. Czar has a 6.2% interest in the well.

The Czar Federal 29-2 was drilled as a northwest offset to the Czar Federal 29-1 discovery well. The Federal 29-2 encountered 18 feet of Dakota sand which was completed as a Dakota gas well flowing at approximately 1 MMcf/d and 98 BOPD. Czar has a 9.5% interest in the well. Additional offsets to these producing wells are planned for 1983.



Will Rogers Airport Area, Oklahoma and Cleveland Counties, Oklahoma

Czar continued its active participation in the multiple objective lower Pennsylvanian play, participating in a total of seven wells, all of which were completed during 1982.

The Czar Bode 1-32 tested at a rate of 370 BOPD and 340 Mcf/d from 45 feet of net pay in the Prue sand and 125 BOPD and 360 Mcf/d from the Red Fork and Skinner sands. Czar has a 13% interest in the well. Two offsets are planned during 1983.

Five wells were drilled in the Skinner channel trend. Three wells, the Morava A-1, Morava D-1 and Holland 2-5 were completed in the Skinner sand, with up to 80 feet of productive Skinner encountered and tests of up to 230 BOPD. The Morava C-1 tested 268 BOPD with 143 Mcf/d from the Skinner and 169 BOPD and 582 Mcf/d from the Red Fork. Czar has up to a 7% working interest in the Morava wells and 2% in the Holland well.

The Czar Morava No. 2 was re-entered by Ratliff Exploration Co. on a farmout from Czar and partners. The subsequent deepening of the well resulted in a new zone discovery. The Oil Creek sand, previously not productive in the area, tested at rates of 2.3 MMcf/d with 54 BOPD. Czar and partners retained an overriding royalty until payout with a working interest back-in after payout.

RESERVES

The Company's proven and probable reserves as at September 30, 1982 were 270.9 Bcf of natural gas, 1,784,096 barrels of oil and natural gas liquids and 105,933 long tons of sulphur. Declines in gas reserves were the result of production and a re-evaluation of the Austin Chalk wells accounted for a 19% decline in U.S. oil reserves.

Evaluations of the reserves were conducted by independent engineering firms and are expressed as net reserves after deductions of Crown and freehold royalties. Czar's reserves at September 30 had an undiscounted value of $1.3 billion and a discounted present worth at a 20% discount rate of $168.3 million.

CZAR RESOURCES LTD. — Reserve Summary by Category

at September 30, 1982 (all figures are net after royalty)

	Oil BBLS	Gas MMCF	Sulphur Long Tons	Undiscounted	Future Net Revenue 10%	15%	20%
CANADA							
Proved Developed Producing	1,060,973	95,112.3	89,619	$ 466,054,677	$164,874,786	$116,871,429	$ 89,104,693
Proved Developed Non-Producing	96,194	79,109.3	—	374,894,778	92,774,970	54,476,604	34,546,126
Total Proved Developed	1,157,167	174,221.6	89,619	840,949,455	257,649,756	171,348,033	123,650,819
Proved Undeveloped	3,868	17,023.7	—	77,177,997	15,959,987	8,389,659	4,691,489
Total Proved	1,161,035	191,245.3	89,619	918,127,452	273,609,743	179,737,692	128,342,308
Probable	252,207	77,675.2	16,314	368,663,541	82,199,393	45,496,561	27,115,838
Total Proved Plus Probable	1,413,242	268,920.5	105,933	$1,286,790,993	$355,809,136	$225,234,253	$155,458,146
UNITED STATES							
Proved Developed Producing	325,376	1,110.9	—	$ 18,265,090	$ 13,017,952	$ 11,341,311	$ 10,036,858
Proved Developed Non-Producing	39,125	237.4	—	2,708,537	1,684,755	1,386,515	1,166,417
Total Proved Developed	364,501	1,348.3	—	20,973,627	14,702,707	12,727,826	11,203,275
Proved Undeveloped	—	91.8	—	614,015	353,559	280,411	227,314
Total Proved	364,501	1,440.1	—	21,587,642	15,056,266	13,008,237	11,430,589
Probable	6,353	544.5	—	4,160,305	2,213,828	1,712,570	1,362,785
Total Proved Plus Probable	370,854	1,984.6	—	$ 25,747,947	$ 17,270,094	$ 14,720,807	$ 12,793,374
Total Reserves	1,784,096	270,905.1	105,933	$1,312,538,940	$373,079,230	$239,955,060	$168,251,520

Production

During 1982, gross production volumes from Czar wells totalled 524,000 barrels of oil and 22.1 billion cubic feet of gas. Czar's share of this production in Canada totalled 126,564 barrels of oil or 347 BOPD and 4.78 Bcf of gas or 13.1 MMcf/d. In the United States, Czar produced 133,319 barrels of oil or 365 BOPD and 0.17 Bcf of gas averaging 0.47 MMcf/d.

GAS PRODUCTION — CANADA

Four main areas contributed to the continued growth of Czar's gas production in fiscal 1982:

British Columbia - Total gross production of 12.2 Bcf from British Columbia allowed Czar to maintain a strong relative position in the Province. During a time when the demand for B.C. gas was reduced substantially compared to the previous year, Czar was still able to meet or exceed the minimum annual volume obligations allowed under its gas contracts. One additional well, Callisto 10-1-83-21 W6M, capable of 4 MMcf/d, was put on production in October 1982 to maintain deliverability to the Monias gas contract.

Hussar, Alberta - Four new gas wells with a combined deliverability of approximately 10 MMcf/d went on production in the Hussar area of Alberta early in 1982. This increased production capability allowed Czar to successfully perform a field deliverability test and restore the Hussar gas contract to a maximum daily rate of 12.4 MMcf/d. Maintenance of the gas contract resulted in total gross production of 2.4 Bcf for the year.

Sherritt Gordon Gas Contract - Initial production to the Sherritt Gordon gas contract started in 1981 and continued to increase during 1982. Gas production to Sherritt averaged 2.2 MMcf/d in 1982 and resulted in a total gross sales volume of 0.79 Bcf. Additional developments during the year included:

i) The Twining 10-10 well, capable of 1 MMcf/d, was put on production in March 1982.

ii) A well in the Caroline gas field, 10-29-35-3 W5M, was tied in and commenced production at 2 MMcf/d in November 1982.

iii) Construction of a 25 MMcf/d gas processing plant in the Parkland area and the tie-in of eight Parkland gas wells was completed in 1982. Production commenced in January 1983.

Completion of Sherritt Gordon Mines major fertilizer facility at Fort Saskatchewan is scheduled for April 1983 and at that time, Czar expects deliveries of natural gas to Sherritt to increase substantially. In March 1983, Czar was delivering 15 MMcf/d to this purchaser.

Alberta Gas Chemicals Contract - Sales commenced in November 1981 with gross production volumes totalling 1.65 Bcf during 1982. Additional development drilling and well connections to increase production volumes during 1983 are presently underway.

OIL PRODUCTION — CANADA

Overall oil production in 1982 experienced a 13.7% decrease from the previous year due to the imposition of allowables in Lanaway, reduced market demand and normal decline. It is anticipated that the implementation of a pressure maintenance scheme in the Lanaway field in 1983 will assist substantially in improving production levels in the coming year. Three new oil wells were put on production in March 1982. The Gilby 16-7-40-4 W5M, Pembina 2-36-45-7 W5M and Pembina 13-36-45-5 W5M wells have a combined gross production of 104 BOPD with Czar's net share totalling 12.5 BOPD.

OIL & GAS PRODUCTION — U.S.

Production continued throughout the year from four wells in the West Point Prospect in Fayette County, Texas, with gross oil and gas production for 1982 of 119,300 barrels of oil and 104 MMcf of gas. This brings the gross cumulative oil production in this prospect to 420,000 barrels of oil, of which Czar has an average working interest of 62.3%.

At year end, seven Czar interest wells in the Will Rogers Airport Prospect, Oklahoma were on production with gross average daily production of 264 BOPD and 1.4 MMcf/d. Czar has an average working interest of 7.5% in these wells.

In the Porcupine Prospect, Campbell County, Wyoming, production was established in the Dakota formation from two wells, the Federal 29-1 and 29-2, which are both currently producing with a combined average daily production of 1.65 MMcf/d and 80 BOPD.

In Louisiana, production from the Reeves and south Roanoke Prospect areas totalled 60,595 barrels of oil during 1982. Czar has interests of up to 28% in wells on these prospects.

Consolidated

as at Oct

ASSETS	1982	1981
CURRENT ASSETS		
Accounts receivable		
Trade	$ 11,622,406	$ 15,389,770
Drilling programs	2,329,778	8,610,573
Current portion of notes receivable		
Drilling programs	694,311	—
Other	222,623	—
Inventory of supplies, at lower of cost and net realizable value	920,681	3,590,498
	15,789,799	27,590,841
LONG-TERM RECEIVABLES		
Notes receivable		
Drilling programs	579,152	—
Other	408,200	—
Other	105,850	—
Advances on behalf of drilling programs	—	1,379,885
	1,093,202	1,379,885
FIXED ASSETS (note 2)		
Petroleum and natural gas leases and rights including exploration, development and equipment thereon, at cost	129,069,030	123,669,825
Other	1,857,423	2,124,666
	130,926,453	125,794,491
Accumulated depletion and depreciation	32,039,326	9,583,152
	98,887,127	116,211,339
	$115,770,128	$145,182,065

Approved by the Board

Director

Director

alance Sheet
31, 1982

LIABILITIES	1982	1981
CURRENT LIABILITIES		
Bank indebtedness (note 3)	$ 6,929,783	$ 716,907
Accounts payable and accrued liabilities	14,673,151	17,279,489
Drilling advances	363,172	6,524,655
Current portion of long-term debt	6,511,115	—
	28,477,221	24,521,051
LONG-TERM DEBT (note 3)	54,751,713	59,570,165
DEFERRED INCOME TAXES	—	1,262,357

SHAREHOLDERS' EQUITY		
CAPITAL STOCK (note 4)		
Authorized		
600,000 First preference shares with a par value of $25 each, issuable in series		
30,000,000 Common shares without nominal or par value		
Issued		
11,628,553 Common shares	59,648,640	59,648,640
RETAINED EARNINGS (DEFICIT) (note 4 (d))	(27,107,446)	179,852
	32,541,194	59,828,492

COMMITMENTS, CONTINGENT LIABILITIES AND FUTURE OPERATIONS (Notes 5 & 9)

	$115,770,128	$145,182,065

Consolidated Statement of Earnings and Retained Earnings (Deficit)

Year Ended October 31, 1982

	1982	1981
REVENUE		
Production (net of petroleum and gas revenue tax and incremental oil revenue tax - $636,803; 1981 - $253,788)	$ 13,046,879	$ 10,713,349
Principal and interest from property dispositions	2,638,388	1,808,253
Management fees	138,885	222,708
Other	—	576,542
	15,824,152	13,320,852
EXPENSES		
Production	3,406,545	2,282,367
General and administrative	5,058,008	4,523,669
Bad debts	3,575,392	—
Interest on long-term debt	9,455,831	6,509,476
Other interest	1,388,227	2,967,041
Interest capitalized	—	(3,958,167)
Write down of petroleum and natural gas properties (note 2)	14,228,822	—
Depletion and depreciation	8,287,800	6,156,233
	45,400,625	18,480,619
Loss before income taxes	(29,576,473)	(5,159,767)
INCOME TAXES		
Alberta royalty tax credit	(1,026,818)	(146,539)
Deferred (reduction)	(1,262,357)	(331,888)
	(2,289,175)	(478,427)
LOSS FOR THE YEAR	(27,287,298)	(4,681,340)
RETAINED EARNINGS AT BEGINNING OF YEAR	179,852	4,861,192
RETAINED EARNINGS (DEFICIT) AT END OF YEAR (note 4(d))	$(27,107,446)	$ 179,852
LOSS PER COMMON SHARE	$(2.35)	$(.44)

Consolidated Statement of Changes in Financial Position

Year Ended October 31, 1982

	1982	1981
WORKING CAPITAL DERIVED FROM		
Operations		
Loss for the year	$ —	$ (4,681,340)
Items not involving working capital	—	5,824,345
	—	1,143,005
Current portion of notes receivable	694,311	—
Proceeds from long-term debt	10,950,000	59,570,165
Petroleum incentives	4,542,780	—
Issue of common shares for cash, net of share issue expenses	—	22,550,727
	16,187,091	83,263,897
WORKING CAPITAL APPLIED TO		
Operations		
Loss for the year	27,287,298	—
Items not involving working capital	(21,360,687)	—
	5,926,611	—
Repayment of long-term debt	9,257,337	—
Additions to fixed assets	9,735,190	45,293,972
Long-term receivables	514,050	1,379,885
Current portion of long-term debt	6,511,115	—
	31,944,303	46,673,857
INCREASE (DECREASE) IN WORKING CAPITAL POSITION	(15,757,212)	36,590,040
WORKING CAPITAL (DEFICIENCY) AT BEGINNING OF YEAR	3,069,790	(33,520,250)
WORKING CAPITAL (DEFICIENCY) AT END OF YEAR	$(12,687,422)	$ 3,069,790

Notes to Consolidated Financial Statements

Year Ended October 31, 1982

1. Accounting Policies (see also note 9)

a) International Accounting Standards

The accounting principles used conform in all material respects with the International Accounting Standards adopted by the International Accounting Standards Committee.

b) Principles of Consolidation

The consolidated financial statements include the accounts of Czar Resources Ltd. and its subsidiary companies, all of which are wholly-owned.

c) Foreign Currency Translation

The accounts of the foreign subsidiaries are translated to Canadian dollars on the following basis:

(i) current assets, current liabilities and long-term debt at the rate of exchange in effect as at the balance sheet date;

(ii) fixed assets at the rate of exchange in effect at the date on which the respective assets were acquired; and

(iii) long-term receivables and revenue and expenses (excluding depreciation and depletion which are translated at the same rate as the related assets) at the average rate of exchange for the year.

Gains or losses resulting from such translation practices are capitalized as part of petroleum and natural gas property costs and are amortized in accordance with policies outlined in note 1(d).

d) Petroleum and Natural Gas Operations

The Company follows the full cost method of accounting for petroleum and natural gas operations whereby all costs of exploring for and developing petroleum and natural gas reserves are capitalized by cost center. A separate cost center is established for each country in which the Company operates, presently Canada and the United States. Costs include land acquisition costs, geological and geophysical expenditures, carrying charges on non-producing property, costs of drilling both productive and non-productive wells, related overhead expenditures and capitalized interest related to major development projects. Costs of major development projects which require significant investment prior to determination of the quantities of proved reserves are excluded from the depletion calculation until the quantities of proved reserves are determined. Costs are depleted by cost center using the composite unit of production method based upon estimated proved developed reserves. In calculating depletion, natural gas reserves are converted to equivalent units of crude oil based on the relative net sales value of each product.

Under certain drilling programs, a significant portion of the consideration for the sale of properties by the Company to limited partnerships is payable to the Company by instalments over a period approximating 26 years. Principal and interest payments, in the aggregate, may not exceed a fixed percentage of net revenue from the wells drilled. Unpaid principal instalments total $51,462,494 at October 31, 1982 (1981 - $52,786,577). Such principal and interest payments will be recorded as and when received.

All of the Company's exploration and development activities related to petroleum and natural gas are conducted with others; the Company records only its proportionate interest in such activities.

e) Depreciation

Depreciation of petroleum and natural gas production equipment and related facilities is provided on the composite unit of production method based on estimated proved developed reserves of each cost center. Depreciation of other equipment is provided on a straight-line basis at rates which are estimated to amortize the cost of the assets over their useful lives.

2. Write Down of Petroleum and Natural Gas Properties

Under generally accepted accounting principles, the capitalized cost of petroleum and natural gas properties is limited to the present value of future net revenues from estimated production of reserves plus the lower of cost and estimated fair value of non-producing properties ("cost ceiling").

During 1982 the carrying value of the Company's petroleum and natural gas assets in the United States cost center has been written down to the cost ceiling as determined from estimates prepared by independent consulting engineers and, as to certain properties, to estimated realizable value as determined by management.

Notes to Consolidated Financial Statements

Year Ended October 31, 1982

3. Long-Term Debt

	1982	1981
Bank loan, bearing interest at the prime rate of a Canadian chartered bank plus 3/4%	$55,000,000	$44,050,000
Bank loan, bearing interest at the U.S. base rate of a Canadian chartered bank plus 3/4% ($5,107,000 U.S.; 1981 - $12,934,549 U.S.)	6,262,828	15,520,165
	61,262,828	59,570,165
Less current portion	6,511,115	—
	$54,751,713	$59,570,165

The loan agreement with the Company's Canadian banker provides for a long-term line of credit of $55,000,000. This loan is repayable in 96 equal monthly instalments of $572,917, commencing March 31, 1983. In addition, the agreement provides for an operating line of credit of $10,000,000. The Company has borrowed $6,929,783 of this limit which is evidenced by notes payable on demand to the bank.

The U.S. dollar bank loan is repayable in quarterly instalments of $393,000 U.S., commencing January 31, 1983.

Long-term debt is secured by an assignment of accounts receivable and certain petroleum and natural gas properties and revenue interests therein. The Company has agreed with its Canadian banker that it will not encumber any of its assets or dispose of any of its petroleum or natural gas properties, other than to its joint venture participants in the normal course of business, without, in each case, the consent of the bank.

4. Capital Stock

a) Common Shares

On March 25, 1982 the authorized capital of the Company was increased from 15,000,000 to 30,000,000 common shares without nominal or par value.

Changes in issued common shares were:	Number of Shares	Consideration
Balance at October 31, 1980	9,613,553	$36,228,940
Issued for cash less applicable share issue expenses of $1,877,903 (net of deferred income taxes of $868,973)	1,800,000	22,391,070
Issued for cash on exercise of stock options	215,000	1,028,630
Balance at October 31, 1981 and October 31, 1982	11,628,553	$59,648,640

b) Options

At October 31, 1982 directors, officers and employees held options to purchase 327,200 common shares of the Company at prices ranging from $4.00 to $7.00 per share. Such options are exercisable from time to time to May 20, 1987.

c) Share Purchase Warrants

At October 31, 1982 600,000 common share purchase warrants were outstanding. One common share purchase warrant entitles the holder to purchase one common share at the price of $17.00 on or before April 30, 1986.

d) First Preference Shares, Series A

Retained earnings (deficit) is net of a Capital Redemption Reserve Fund in the amount of $145,500. As required under the Companies Act (Alberta) in respect of the redemption of 5,820 first preference shares, Series A, the fund is not available for the payment of dividends.

Notes to Consolidated Financial Statements

Year Ended October 31, 1982

5. Commitments and Contingent Liabilities

Lease commitments in respect of office premises and other equipment at October 31, 1982 amount to $1,639,000 which will be expended as follows: 1983 - $750,000; 1984 - $631,000; 1985 - $248,000; and 1986 - $10,000.

Commitments in respect of long-term drilling contracts at October 31, 1982 amount to $1,250,000 which will be expended in 1983. It is anticipated that all of this expenditure will be recovered from joint venture participants in 1983 drilling activities.

The Company has entered into joint venture agreements with a number of limited partnerships for the exploration and development of properties. The limited partnerships were required to retire, in each year, certain of the limited partnerships' interests. In order to finance such obligations, the Company had been required to purchase an interest in the assets of the limited partnerships. In 1982 the Company expended $1,665,515 in respect of such obligations which expenditures have been recorded as fixed assets.

A company indirectly controlled by the president of the Company has offered to purchase all of the outstanding units of the limited partnerships and thereafter dissolve the partnerships. In consideration of its release from the obligations to purchase interests in the assets of the limited partnerships, the Company has agreed to make aggregate payments of $45,000 per month for 36 months upon dissolution of the partnerships. The Company estimates its obligation in 1983 will be $270,000 in respect of this commitment.

The Company is committed to spend $2,700,000 in 1983 on the development of petroleum and natural gas operations, including amounts related to obligations under joint venture agreements with limited partnerships.

6. Segmented Information

The Company has a single line of business, which is the exploration for and the development and production of petroleum and natural gas. Information about the Company's operations by geographic segment is as follows:

	1982	1981
Identifiable assets		
Canada	$ 96,603,892	$101,544,718
United States	19,166,236	43,637,347
Total	$115,770,128	$145,182,065

	Year Ended October 31, 1982		
	Canada	United States	Total
Production	$7,327,746	$ 5,719,133	$ 13,046,879
Principal and interest from property dispositions	2,617,456	20,932	2,638,388
	$9,945,202	$ 5,740,065	$ 15,685,267
Operating profit (loss)	$5,385,937	$(15,623,837)	$(10,237,900)
Other revenue			138,885
			(10,099,015)
General and administrative expense			5,058,008
Bad debts			3,575,392
Interest expense			10,844,058
			19,477,458
Loss before income taxes			$(29,576,473)

Notes to Consolidated Financial Statements
Year Ended October 31, 1982

6. Segmented Information (continued)

	Year Ended October 31, 1981		
	Canada	United States	Total
Production	$5,578,720	$5,134,629	$ 10,713,349
Principal and interest from property dispositions	1,766,878	41,375	1,808,253
	$7,345,598	$5,176,004	$ 12,521,602
Operating profit	$3,348,585	$ 734,417	$ 4,083,002
Other revenue			799,250
			4,882,252
General and administrative expense			4,523,669
Interest expense			5,518,350
			10,042,019
Loss before income taxes			$ (5,159,767)

7. Related Party Transactions

A significant shareholder, director and senior officer of the Company is a majority shareholder of a corporation which is the general partner of certain limited partnerships and the manager of certain other companies which have entered into joint ventures with the Company for the exploration and development of properties. At October 31, 1982 the said limited partnerships and companies were indebted to the Company in the aggregate amount of $3,542,021 (1981 - $9,990,458). In the year ended October 31, 1982 the charges made by the Company to such limited partnerships and companies totalled $24,670,948 (1981 - $48,032,918).

8. Statutory Information

During the year the Company paid remuneration of $450,829 to its senior officers (including the five highest paid employees). Two of the directors are also officers and received no remuneration in their capacity as directors. Two directors received aggregate remuneration of $11,250.

In 1980 the Company established a Management Compensation Plan by which gross overriding royalties are granted to employees. The gross overriding royalties are granted on all wells drilled after March 30, 1980 to a maximum of 2.5% of the Company's share of gross revenue. The chairman and president has never participated in the Plan.

9. Future Operations

The Company has incurred significant operating losses during the years ended October 31, 1981 and 1982 and at October 31, 1982 had an accumulated deficit of $27,107,446 and a working capital deficiency of $12,687,422. Operations in 1983 are unlikely to generate sufficient funds to meet the obligations of the Company and existing lines of credit are not adequate to ensure the payment of liabilities as they come due.

The future of the Company will depend on its ability to renegotiate the terms of its present bank loans, to attain profitable operations, or to repay significant amounts of long-term debt through either disposing of petroleum and natural gas properties or obtaining additional equity financing. These financial statements are prepared on the basis that the Company will continue to operate and meet its obligations throughout its next fiscal period subsequent to October 31, 1982.

Reference is made to note 5 respecting other commitments and contingent liabilities.

Auditors' Report

To the Shareholders of
Czar Resources Ltd.

We have examined the consolidated balance sheet of Czar Resources Ltd. as at October 31, 1982 and the consolidated statements of earnings and retained earnings (deficit) and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at October 31, 1982 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Canada
January 4, 1983

Thorne Riddell
Chartered Accountants

ABBREVIATIONS

Throughout this report standard oil and gas abbreviations have been used. Their explanation is as follows:

Bbl	Barrel
Bcf	Billion Cubic Feet
BOPD	Barrels of Oil Per Day
Mcf	Thousand Cubic Feet
MMcf	Million Cubic Feet
MMcf/d	Million Cubic Feet Per Day

CZAR RESOURCES LTD.

Printed in Canada

Morava D-1 well on state tests flowed at rates of 230 barrels of oil per day and 100 thousand cubic feet of gas per day from the Skinner Sandstone. Czar now has four wells on production from this multi-reservoir pool producing approximately 360 barrels of oil per day and 1.6 million cubic feet of gas per day. A further eight to ten development wells are scheduled for drilling during the remainder of 1982. Some of the other Oklahoma activities included three Redfork gas completions in the Fort Cobb Prospect, in Cado County, each capable of producing 1 million cubic feet of gas per day, two deep development gaswells at the North Corn Prospect in Washita County with the Hamburger #1-24 well now on production at a rate of 2.2 million cubic feet of gas per day and the Miller #1-8 well at the Student Prospect in Ellis County where the well upon stimulation flowed gas at a rate of 3.285 million cubic feet of gas per day with a calculated absolute open flow of 8.8 million cubic feet of gas per day.

To complement the Oklahoma exploration efforts, Czar has been developing an exploration program in the Powder River Basin of Wyoming. In Campbell County, a recent Czar discovery, the Federal #1-29 well production tested at a rate of 1.1 million cubic feet of gas per day and 150 barrels of oil per day from a Lower Cretaceous Sandstone. A sales contract for the gas has been secured with production commencing early in July. Czar has plans for three additional wells on the prospect in 1982.

Exploration commitments in Canada continue to be funded through a joint venture with a Vancouver-based partner. The Company has recently agreed to act as operator in a small new joint venture program with a European company which provides for the drilling of about ten development wells on Alberta gas plays. United States funding continues with the U.S. public drilling program and European joint ventures. Approximately $9 million in funds remain unspent.

The Company is presently compiling information in order to apply for a Canadian Ownership Certificate as we feel confident that the Company will be able to qualify for the maximum level of Petroleum Incentive Program Grants. Czar expects to receive about $3-4 million from such grants.

The management of your Company is of the opinion that with a carefully managed small expenditure program concentrating on immediate cash flow projects, stability can be maintained during this tight economic environment.

On Behalf of the Board,

R. W. Lamond,
Chairman of the Board

Ian B. McMurtrie,
President

June 1982

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CZAR RESOURCES LTD.

INTERIM REPORT TO SHAREHOLDERS
6 MONTHS ENDED APRIL 30, 1982

CZAR RESOURCES LTD. and Subsidiary Companies

To the Shareholders

On behalf of the Board of Directors of Czar Resources Ltd. it is our pleasure to present to shareholders the six month interim report for fiscal 1982.

Due to record revenues, which rose to $9,714,830 for the six months ended April 30, 1982 from $7,592,275 during the same period in 1981, cash flow increased to $3,178,016 from $1,971,306 last year. Continued high interest and deflation charges, however, resulted in a net loss of $1,329,068 or $.11 per share. At the period end, Czar's working capital was $8,167,826, while net liabilities, represented by long term debt less working capital totalled $60.6 million. The lower level of activity during the past year allowed the Company to reduce its overhead and Czar is keeping its own expenditures to the minimum required under our drilling program commitments. With revenue in Canada and the United States slowly increasing as new wells are tied-in, Czar continues to improve its monthly cash flow. Canadian cash flow has been assisted recently by the Alberta Government Incentive Program and the announcement from the Federal Government on May 31, 1982 concerning certain changes to the National Energy Program. These changes in oil pricing, royalty structure and federal taxation rates will effectively increase Czar's cash flow by about $1.5 million over a twelve month period. The federal changes are effective June 1, 1982 and will impact on our nine month statement.

During the first half of fiscal 1982, Czar participated in the drilling of thirty-one wells in Canada and the United States resulting in fifteen gaswells, five oilwells, ten dry holes and one well temporarily suspended due to mechanical problems. In addition, another fifteen wells were drilled during this time period as farmouts on Czar acreage by other companies. These operations resulted in five gaswells and three oilwells where Czar retained an interest without incurring any of the costs.

As described in the previous quarterly statement, Canadian exploration efforts were concentrated exclusively in central and southern Alberta, specifically at Manito-Buffalo Lake, Delia and Parkland where six wells were drilled resulting in five gas completions and one dry hole. At Parkland, the Company, its fund and industry partners have awarded the contract for construction of a 25 million cubic feet of gas per day gas processing facility with completion scheduled for December 1982. The Company estimates that an additional four wells will be drilled in the area during 1982.

In the United States, Czar continues to concentrate the bulk of its activities in Oklahoma with fourteen wells having been drilled in this state resulting in seven gaswells, five oilwells and two dry holes. At the Will Rogers Airport Prospect in Oklahoma County, the

Consolidated Statement of Earnings and Retained Earnings
Six Months Ended April 30, 1982
(Unaudited)

	1982	1981
REVENUE		
Production	$ 7,554,740	$ 6,203,921
Less petroleum gas revenue tax and incremental oil revenue tax	527,667	65,713
	7,027,073	6,138,208
Principal and interest from property dispositions	1,608,262	905,673
Management fees	114,059	79,055
Other	965,436	469,339
	9,714,830	7,592,275
EXPENSES		
Production	1,584,619	712,740
General and administrative	2,478,225	2,155,161
Interest on long term debt	5,163,591	552,191
Other interest	63,660	3,306,558
Less interest capitalized	(2,331,841)	(1,073,582)
Depletion and depreciation	3,550,191	1,499,492
	10,508,445	7,152,560
EARNINGS (LOSS) BEFORE INCOME TAXES	(793,615)	439,715
INCOME TAXES		
Current (recovery)	(421,440)	(32,099)
Deferred	956,893	210,459
	535,453	178,360
NET EARNINGS (LOSS) FOR THE PERIOD	(1,329,068)	261,355
Retained Earnings at beginning of the period	179,852	4,861,192
RETAINED EARNINGS (DEFICIT) AT END OF THE PERIOD	$ (1,149,216)	$ 5,122,547
EARNINGS (LOSS) PER COMMON SHARE	$(.11)	$.03

Consolidated Statement of Changes in Financial Position
Six Months Ended April 30, 1982
(Unaudited)

	1982	1981
WORKING CAPITAL DERIVED FROM:		
Operations:		
Net earnings (loss)	$ (1,329,068)	$ 261,355
Items not requiring working capital	4,507,084	1,709,951
	3,178,016	1,971,306
Long term debt	9,235,435	40,400,000
Advances on behalf of drilling programs	1,379,885	—
Issue of Common Shares for cash, net of share issue expenses	—	22,522,605
	13,793,336	64,893,911
WORKING CAPITAL APPLIED TO:		
Fixed assets, net	6,886,666	31,583,049
Notes Receivable from drilling program	1,769,059	—
Share Issue expense	39,575	—
	8,695,300	31,583,049
INCREASE IN WORKING CAPITAL	5,098,036	33,310,862
WORKING CAPITAL (DEFICIENCY) AT BEGINNING OF PERIOD	3,069,790	(33,520,250)
WORKING CAPITAL (DEFICIENCY) AT END OF PERIOD	$ 8,167,826	$ (209,388)